

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton;
Ruth Y. Goldway; and
Nanci E. Langley

Periodic Reporting
(Proposal Twelve)

Docket No. RM2015-5

ORDER CONDITIONALLY APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL TWELVE)

(Issued May 1, 2015)

I. INTRODUCTION

This Order addresses a Postal Service petition seeking approval of Proposal Twelve, which concerns a costing methodology for Customer Care Centers.¹ The Petition was filed pursuant to 39 C.F.R. § 3050.11. For the reasons discussed below, the Commission conditionally approves Proposal Twelve.

This Order provides background information, describes Proposal Twelve, addresses related filings, and presents the Commission's analysis and conclusion. A procedural summary appears in the Appendix.

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), November 7, 2014 (Petition).

II. BACKGROUND

Proposal Twelve stems from a fundamental change in the operational approach to Postal Service call centers.² Prior to Fiscal Year (FY) 2014, call centers were operated and staffed by outside contractors. Petition, Attachment at 1. However, in FY 2011, the Postal Service entered into a labor agreement with the American Postal Workers Union, AFL-CIO (APWU), which included a Memorandum of Understanding providing that call centers would be staffed by Clerk Craft employees within 2 years of ratification of the negotiated contract. See *generally* Agreement at 375-376. The new duty assignments were to be staffed by no fewer than 1,100 Clerk Craft employees, with a mix of 70 percent career and 30 percent rehabilitation status employees.³ *Id.* at 376. As a consequence of this negotiated in-sourcing, the Postal Service needed to develop a new cost attribution methodology for the clerk costs associated with the call centers.

III. PROPOSAL TWELVE: ESTABLISHMENT OF A COST ATTRIBUTION METHODOLOGY FOR CALL CENTERS

A. Postal Service Proposal

Summary. Proposal Twelve presents a costing methodology that analyzes call center activities to determine whether costs should be categorized as attributable or institutional. See *generally* Petition, Attachment at 1-2.

Current methodology. The current methodology records costs for contractor provided call center services in Cost Segment 16 (Supplies and Services). *Id.* at 1.

² Proposal Twelve refers to Customer Care Centers, while a Memorandum of Understanding attached to a collective bargaining agreement refers to Corporate Call Centers. See, e.g., Petition, Attachment at 1 and Collective Bargaining Agreement between the American Postal Workers Union, AFL-CIO and U.S. Postal Service, at 375-376 (Agreement). The remainder of this Order uses the term "call centers" to refer to both insourced and outsourced call center operations. The Appendix provides information on how to access the Agreement.

³ "Rehabilitation status" refers to an assignment given to an injured employee when the employee's doctor notifies the Postal Service the employee has reached maximum medical improvement but still has medical restrictions prohibiting the employee from returning to his/her regular job. A permanent rehabilitation assignment may or may not include functions of the employee's regular job. USPS Handbook EL-307, Reasonable Accommodation, An Interactive Process, Glossary, October 2008.

This treatment reflects the fact that prior to FY 2014, costs associated with call centers were part of an outsourced contract. *Id.* For purposes of attribution, the Postal Service considered these costs institutional largely because it did not have data that would permit creating the distinctions that are the basis of the proposed methodology for call centers staffed by postal clerks. Postal Service Reply Comments at 2.⁴

Proposed methodology. The Postal Service proposes determining attribution by classifying 21 call types as either attributable or institutional. Petition, Attachment 1 at 4. Costs associated with calls about specific products and services will be categorized as attributable to those products and services; a piggyback factor will be used to attribute certain other costs (such as training) to specific products and services; and costs associated with more general calls will be categorized as institutional. *Id.* at 4-5. The Postal Service has developed two spreadsheets, one public and one non-public, detailing the steps used to determine the attribution level for the 21 call types.⁵

The Postal Service characterizes call centers as handling two types of inquiries: specific inquiries pertaining to mail products or special services and inquiries that are not related to products, such as those about a correct ZIP Code. Petition, Attachment at 2. It proposes fully attributing costs associated with specific inquiries to those products or services, and the share of support costs associated with these inquiries, to those products or services. *Id.* It proposes treating inquiries not related to products or services as institutional costs. *Id.*

The analysis determines the percent of the day that clerks spend speaking on the telephone, answering emails, and performing research. *Id.* These activities are then grouped into categories such as inbound call time; call support; non-call activities; and employee support activities. *Id.* The inbound call time category is allocated among 21

⁴ Reply Comments of the United States Postal Service Regarding Proposal Twelve, December 9, 2014 (Postal Service Reply Comments).

⁵ The public version, "*prop.12.call.cntr.public.xls*," was filed with the Petition (Public Spreadsheet). The non-public version was filed concurrently under seal as Library Reference USPS-RM2015-5/NP1 (Non-public Spreadsheet).

call types, which are then analyzed to determine the proportion of time that can be considered attributable and the portion that can be considered institutional. *Id.* As an example, calls for stamps are considered 100 percent attributable, while calls for facility hours and/or location are 100 percent institutional. *Id.* Additionally, some calls considered "general inquiry" calls may be a mix of attributable and institutional. *Id.* at 2-3. Non-call activities, such as answering emails and research, are also analyzed to determine the appropriate level of attribution. *Id.* at 3.

A distribution method or key for each attributable inbound call type or non-call activity is then determined by analyzing each call type to link the time spent on each activity to the proportion of products which utilize each activity. *Id.* Calls for stamps are distributed to products using total stamped mail volume, for example, while calls for gopost⁶ are distributed to products using total parcel volume. *Id.* Call support activities are allocated proportionally to call type, and these proportions are applied to the attributable costs. *Id.* Employee support activity is then allocated using the same attribution and distribution as the total of the rest of the call center labor costs. *Id.*

The Postal Service proposes including the insourced call center costs in Cost Segment 3 (Clerks & Mail Handlers—CAG A-J Offices) because the call centers are now staffed by Postal Service clerks, rather than by a contractor. *Id.* at 1. It proposes establishing a new cost component (component 424) as part of Cost Segment 3.3, Administrative Support and Miscellaneous clerk costs because the activities of the call centers are similar to the activities of Claims and Inquiries clerks. *Id.*

Impact. In FY 2014, clerk costs for call centers amounted to approximately \$85.1 million. *Id.* The proposed methodology allocates approximately \$48.1 million, or 56 percent, of these costs to related products and services.⁷ In addition, the Postal Service proposes using the piggyback factor for Other Admin Clerks and Data Collection to estimate attributable supervision, administrative clerk, facility-related costs, service wide

⁶ This is a trademarked Postal Service term referring to automated, secured, self-service parcel lockers offered by the Postal Service. See <https://gopost.usps.com/go/EPLAction!faq.action>.

⁷ See Public Spreadsheet, worksheet "Final."

benefits, and other miscellaneous costs associated with the costs of the call centers. This factor (1.378) increases total attributable costs to slightly over \$66.2 million. Petition, Attachment at 6.

Proposal Twelve's major impact is on Competitive products, which are assigned slightly over 74 percent of total attributable call center costs. *Id.* Market Dominant products and International Mail are assigned the remaining 26 percent.⁸ *Id.*

B. Comments/Reply Comments

1. Public Representative Comments

The Public Representative concludes that the proposal appears reasonable, but criticizes the Postal Service for not including certain supporting information in the Petition and supporting workpapers.⁹ See *generally* PR Comments at 1-3. She asserts that one omission is an explanation of the current methodology used to allocate the outsourced contractor costs reported in Cost Segment 16, and claims this means a comparative analysis cannot be accomplished. *Id.* at 2. She also points to a lack of support for the data used to allocate various elements of the call center costs to the type of call handled and costs to related products and services. *Id.* Specifically, she notes that the proposed methodology groups call center activities and the amount of time spent on those activities based on the type of call and the amount of time on the call by the clerks. *Id.* However, she asserts that neither the proposal nor the attached worksheet provides the method used to separate these activities and the time spent into the various cost elements. *Id.* She further asserts there is no support relating to the calls categorized as general inquiry calls, based on her conclusion that the methodology for separating this activity into attributable and institutional cost components was not explained in the Petition. *Id.*

⁸ The unit cost impact is shown in an accompanying table. *Id.* at 6-7.

⁹ Public Representative Comments in Response to Order No. 2246 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), December 5, 2014 (PR Comments).

Notwithstanding these criticisms, the Public Representative commends the Postal Service for attempting to separate available data into as many units as possible to analyze fully the activities and properly allocate costs to the products, but asserts that the lack of information on distribution keys and allocation of the call center clerks' activities renders the proposal difficult to understand. *Id.* at 2-3. Moreover, she asserts that without an explanation of the current methodology, a comparison cannot be developed to determine whether the new proposal is an improvement. *Id.*

2. Reply Comments

Summary of position. The Postal Service notes that the Public Representative does not oppose the proposal; acknowledges concerns about certain supporting information; and either provides the missing information or explains where the requested information can be found in the filing. *See generally* Postal Service Reply Comments at 1-4.

With respect to the Public Representative's concern about the lack of a comparative analysis using the current methodology, the Postal Service states that a significant operational change created the need for a new methodology to analyze the employee costs associated with the call centers. *Id.* at 1. It explains that the costs incurred with the outside contractor were considered institutional, primarily because data was not available permitting analysis of the call center costs. *Id.* at 2. Therefore, it asserts that the baseline for the comparison the Public Representative seeks is the contractor costs, which are 100 percent institutional, versus the proposed cost methodology, which attributes \$48 million of the total \$85 million in labor costs (before piggybacks) to products and services, and treats \$37 million as institutional. *Id.*

In response to the Public Representative's concern about information on agency activity and call type times, the Postal Service provides a more comprehensive explanation for the source of the call center clerk activities and the development of the call types used to develop the attributable cost analysis. It states that this data is generated by FRANKLIN, a call routing computer system developed by the Postal

Service's Consumer and Industry Affairs Department. *Id.* It explains that this system routes incoming calls from customers to appropriate call center clerks and records the amount of time spent on the different activities. *Id.* The Postal Service states that some activities are set by the call center clerk to alert the system to not route calls to that clerk and also some activities are set by the routing system, such as noting an inbound call or a call ringing. *Id.* It also states that there is an automated Interactive Voice Response (IVR) system where call types are selected by the customer through questions posed by the IVR system. *Id.* at 3.

The Postal Service explains that one type of customer response to the IVR system could be a general inquiry, which it notes the Public Representative highlights as being especially troublesome. *Id.* It states that general inquiry calls encompass a variety of possible subjects and concern several different products and services. *Id.* It explains that that under Proposal Twelve, general inquiry activities are attributable to the same extent as all the other call types. *Id.*

The Postal Service also describes the attributable cost analysis generated by the Public Spreadsheet. *Id.* It notes that the distribution keys, which the Public Representative cited as lacking sufficient supporting information, are adequately accounted for within the Public Spreadsheet. *Id.* The Postal Service acknowledges that the large amount of data and the significant number of call types analyzed for variability can lead to confusion about the proposal, but submits that all the necessary detail needed to understand the methods to assign attributable and institutional costs by the various call types are included in the spreadsheet files. *Id.* at 4.

3. Information Request

An information request sought further explanation of the variability of the call types and the distribution keys used to allocate the call type costs among products.¹⁰ It also sought information about many of the data sources used to develop the attributable

¹⁰ Chairman's Information Request No. 1, February 12, 2015 (CHIR No. 1).

call types distribution keys; call data prior to the Postal Service assuming control of the call center; and information on whether the In-Office Cost System is used to allocate any call center costs. The Postal Service's response confirmed that each attributable call type is considered 100 percent variable and that no special study or other quantitative analysis was performed to determine the variability of the call types.¹¹

With respect to the rationale for concluding that each attributable call type is 100 percent variable, the Postal Service stated that prior uses of call center IVR data, documented in two library references filed in Docket No. ACR2014,¹² have considered the number of calls for certain categories to be 100 percent volume variable.¹³ The Postal Service also noted that this data has been in use and approved since FY 2009 and, in the absence of any data suggesting that each of the attributable call types are not 100 percent variable, it used the variability in the Docket No. ACR 2014 library references. *Id.* However, it stated that if data demonstrating that variabilities differ from 100 percent become available, the calculations will be revisited. *Id.*

IV. COMMISSION ANALYSIS

The Commission conditionally approves Proposal Twelve. As the Postal Service states, this proposal responds to an operational change which, due to negotiated labor contract obligations, resulted in staffing call centers with Postal Service personnel rather than outside contractors. The Commission finds that the proposal, overall, is a reasonable approach to determining the attributable activities. However, the Postal

¹¹ Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, February 23, 2015, question 1 and question 2(a) (Postal Service Response to CHIR No. 1).

¹² See Docket No. ACR2014, Library Reference USPS-FY14-28 (which describes the total costs for Market Dominant Ancillary and Special Services); Docket No. ACR2014, Library Reference USPS-FY14-NP26 (which describes the total costs for Competitive Ancillary and Special Services).

¹³ Postal Service Response to CHIR No. 1, question 2(b)(i).

Service has not adequately determined the volume variability of several of the call types, and this calls into question the distribution of costs to products.

The Commission finds that the Public Representative's concern about the absence of an explanation of the current methodology is misplaced because there is no "current" methodology for call centers staffed by Postal Service personnel. Accordingly, the Postal Service appropriately used the methodology for outsourced call centers as a baseline. However, the Commission shares the Public Representative's concerns about the lack of information in the Petition explaining the development of the call types and the determination of the variable and fixed portions of those call types. The Petition would have been more consistent with filing requirements and would have facilitated expedited resolution of this docket if the description of the FRANKLIN call routing system, which serves as the basis of the distribution of the call center clerks' time and the determination of the various call types, had been part of the narrative in the Petition. While analysis of the spreadsheets shows a logical and consistent methodology for determining the call types that will be considered attributable, there is no analysis determining the volume variability of the attributable call types. Also, descriptions of the sources of the distribution keys for the attributable call types are not sufficiently detailed to allow an interested party, such as the Public Representative, to track to the source of such data and determine whether the proposed methodology is accurate and reasonable.

As noted above in the description of the Postal Service's Response to CHIR No. 1, the Postal Service has not performed a variability analysis for any of the attributable call types. Instead, it has used call center IVR data to determine unit call center costs for several different ancillary and special services,¹⁴ but the use of the data does not indicate a variability of 100 percent for these costs. These costs are more

¹⁴ The Market Dominant special services in Docket No. ACR2014, Library Reference USPS-FY14-28 that use IVR data are Change of Address Credit Card Authorization, USPS Tracking (formerly Delivery Confirmation), and Signature Confirmation. The Competitive product services using IVR data in Docket No. ACR2014, Library Reference USPS-FY14-NP26 are Adult Signature, Change of Address Credit Card Authentication, USPS Tracking (formerly Delivery Confirmation), and Signature Confirmation.

analogous to product specific costs, as the determination of the special service products call center costs are specific to that special service product. For example, IVR data is used to determine the “corporate call management” unit cost for the manual handling of Delivery Confirmation (now branded as USPS Tracking). The unit cost is determined by estimating the total call center cost for Delivery Confirmation and dividing by the number of manual Delivery Confirmation transactions.¹⁵

This proposal's procedure for determining a clerk's time among 21 different call types is analogous to the determination of cost pools, as in mail processing. Therefore, each of the cost pools, or call types, should be analyzed for volume variability or determined to be product specific. The variability analysis should determine whether a call center clerk's time used for each call type increases or decreases as volume increases or decreases. For example, as the volume of parcels increases, do the calls to the call center for redelivery (one of the 21 call types) also increase and by what proportion? Another example is the call type for stamps. This call type is considered 100 percent variable with total stamped volumes in the Postal Service's proposal. The Commission considers a request for stamps received by clerks at the call centers similar to the costs associated with window clerks selling stamps at the window. The Cost Segment 3 workpapers indicate that the variability of the time selling stamps at the window is 33.3 percent, and that this variable cost is distributed to products based on the volume of stamped pieces.¹⁶ Thus, the question is: what is the difference between selling stamps at the window and selling stamps through the call center? The Postal Service has not provided that explanation in this proposal.

The Commission finds that Proposal Twelve, while a reasonable approach to the determination of the attributable activities of call center personnel, lacks a sufficient variability analysis for certain call types. It directs the Postal Service to re-evaluate the proposal in terms of how the attributable call types are variable with volume.

¹⁵ See Library Reference USPS-FY14-NP26, file “*USPS Tracking-FY2014.xls*”, tab I-5b.

¹⁶ See Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2013, July 1, 2014, at CS03-13, 3-14 and 3-15.

Additionally, the Postal Service is to provide a detailed description and analysis of the distribution keys used to allocate the attributable costs to the products. When this material has been filed and reviewed, the Commission will address final approval of Proposal Twelve.

V. ORDERING PARAGRAPH

It is ordered:

1. For purposes of periodic reporting to the Commission, the Commission conditionally approves the changes in analytical principles proposed by the Postal Service in Proposal Twelve.
2. The Postal Service is directed to provide a more thorough analysis of the variability of the attributable call types and the distribution of the attributable call types to the products and services. This analysis should be accompanied by an explanation of the reasons for the choice of distribution key.

By the Commission.

Shoshana M. Grove
Secretary

PROCEDURAL SUMMARY

On November 7, 2014, the Postal Service filed a petition pursuant to 39 C.F.R. § 3050.11 seeking initiation of a rulemaking proceeding to consider proposed changes in analytical principles.¹ The subject of the Petition is Proposal Twelve, Establishment of a Cost Attribution Methodology for Customer Care Centers.² The Postal Service concurrently filed supporting workpapers (in public and non-public versions) and, in a related filing, incorporated by reference a previous application for non-public treatment of certain material (filed in this case) that it considers confidential business information.³

On November 12, 2014, the Commission issued Order No. 2246 establishing the instant docket for consideration of the Petition, designating an officer of the Commission (Public Representative) to represent the interests of the general public, and establishing dates for filing initial and reply comments.⁴

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Twelve), November 7, 2014 (Petition).

² Call center staffing changed from an outsourced operation (referred to as Corporate Call Centers) to an in-house operation (referred to as Customer Care Centers) pursuant to a collective bargaining agreement. See Collective Bargaining Agreement between the American Postal Workers Union, AFL-CIO and U.S. Postal Service, at 375-379 (Agreement). The Agreement can be accessed via <http://www.prc.gov>, using the "Docket Search" function to locate Docket No. R2013-11, Library Reference USPS-R2010-4R/8, Supporting Files, APWU Agreement.

³ See Notice of Filing of Library Reference USPS-RM2015-5/NP1, and Application for Nonpublic Treatment, November 7, 2014 (collectively, Notice). The Notice incorporates by reference the Application for Non-Public Treatment filed as Attachment Two to the United States Postal Service Fiscal Year 2013 Annual Compliance Report, December 27, 2013. See Notice at 1.

⁴ Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), November 12, 2014 (Order No. 2246).

The Public Representative filed comments on December 5, 2014.⁵ The Postal Service filed reply comments on December 9, 2014.⁶ No other comments were received.

The Commission issued, and the Postal Service responded to, one information request.⁷ Following consideration of the Petition and other filings in this docket, the Commission conditionally approved Proposal Twelve and directed the Postal Service to provide further analytical support.

⁵ Public Representative Comments in Response to Order No. 2246 Concerning Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twelve), December 5, 2014 (PR Comments).

⁶ Reply Comments of the United States Postal Service Regarding Proposal Twelve, December 9, 2014 (Postal Service Reply Comments).

⁷ See Chairman's Information Request No. 1, February 12, 2015 (CHIR No. 1); Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, February 23, 2015 (Postal Service Response to CHIR No. 1).